

**PEWAMO-WESTPHALIA COMMUNITY SCHOOLS**

**Pewamo, Michigan**

**Annual Financial Statements**

**and**

**Auditors' Report**

**June 30, 2004**

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**Pewamo-Westphalia Community Schools**  
**Pewamo, Michigan**  
**Members of the Board of Education and Administration**  
**June 30, 2004**

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Members of the Board of Education

Kathy Wood	President
Jon Thelen	Vice-President
Brenda Feldpausch	Secretary
Ruth Schueller	Treasurer
Kim Thelen	Trustee
Jim Hefron	Trustee
Phil Stoddard	Trustee

Administration

Ron Simon	Superintendent
Michelle Sharp	High School and Junior High Principal
George Heckman	Elementary Principal

## **Independent Auditors' Report**

To the Board of Education  
Pewamo-Westphalia Community Schools  
Pewamo, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Pewamo-Westphalia Community Schools as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pewamo-Westphalia School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pewamo-Westphalia Community Schools as of June 30, 2004, and the respective changes in financial position, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 22, 2004, on our consideration of the Pewamo-Westphalia Community School's internal control over financial reporting and on our tests of its provisions of laws and regulations and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The administration's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pewamo-Westphalia Community School's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Alma, Michigan  
July 22, 2004

**Pewamo-Westphalia Community Schools  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2004**

Pewamo-Westphalia Community Schools (the District) Administration discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2004.

This is the first year of GASB 34 implementation. As a result the financial report is presented very differently than previous years. The following is an illustration on how this financial report is presented.

**MD&A**

Administration's Discussion  
And Analysis  
(required supplementary information – new)

**Basic Financial Statements**

Fund  
District –wide Financial Statements  
(refocused)  
  
Notes to the financial statements  
(expanded / restructured)

**Supplementary Information**

Required supplementary information  
(other than MD & A expanded)

As indicated in the illustration, GASB 34 requires the presentation of two basic types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Pewamo-Westphalia Community Schools**  
**Administration's Discussion and Analysis**  
**For the Year Ended June 30, 2004**

**District Wide Financial Statements**

The District wide statements are new and provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District wide statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets, for the first time, combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

Consistent with the full accrual basis method of accounting the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

**Fund Financial Statements**

The fund statements are similar to financial presentations of years past, but the new focus is on the District's Major Funds rather than fund types as in the past. The two Account Groups: General Fixed Assets and General Long Term Debt are no longer reported. Consistent with previous years, the fund statements are reported using the modified accrual method of accounting. Under this basis of accounting, revenues are recorded when received except where they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year and future debt obligations are not recorded.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Fund, Capital Project Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions, grants, and other intergovernmental revenues. The Special Revenue Fund is comprised of Athletic Activities and Food Service. The Debt Fund is used to record the funding and payment of principal and interest on bonded debt. The Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.



**Pewamo-Westphalia Community Schools**  
**Administration's Discussion and Analysis**  
**For the Year Ended June 30, 2004**

**Financial Analysis of the District as a Whole**

Summary of Net Assets

**Assets**

Current assets	\$2,681,889
Capital assets	17,178,608
Less accumulated depreciation	<u>(3,100,534)</u>
Capital assets, net	<u>14,078,074</u>
Total assets	<u>\$16,759,963</u>

**Liabilities**

Current liabilities	\$1,896,816
Long-term liabilities	<u>12,867,706</u>
Total liabilities	<u>14,764,522</u>

**Net assets**

Total capital assets, net of related debt	1,537,334
Unrestricted	<u>458,107</u>
Total net assets	<u>\$1,995,441</u>

**Summary of Net Assets**

As indicated by the statement above, total net assets are \$1,995,441. Net assets can be separated into three categories: net capital assets net of related debt, restricted assets, and unrestricted assets.

Net capital assets are a combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$17,178,608, which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. Total accumulated depreciation is \$3,100,534. Most capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due through property taxes approved by the voters. General obligation bonds total \$11,445,000.

The remaining \$458,107 of net assets is unrestricted. The unrestricted fund balance is an accumulation of prior years' operating results. This balance is directly affected each year by the Districts operating results.

**Pewamo-Westphalia Community Schools**  
**Administration's Discussion and Analysis**  
**For the Year Ended June 30, 2004**

**Results of Operations**

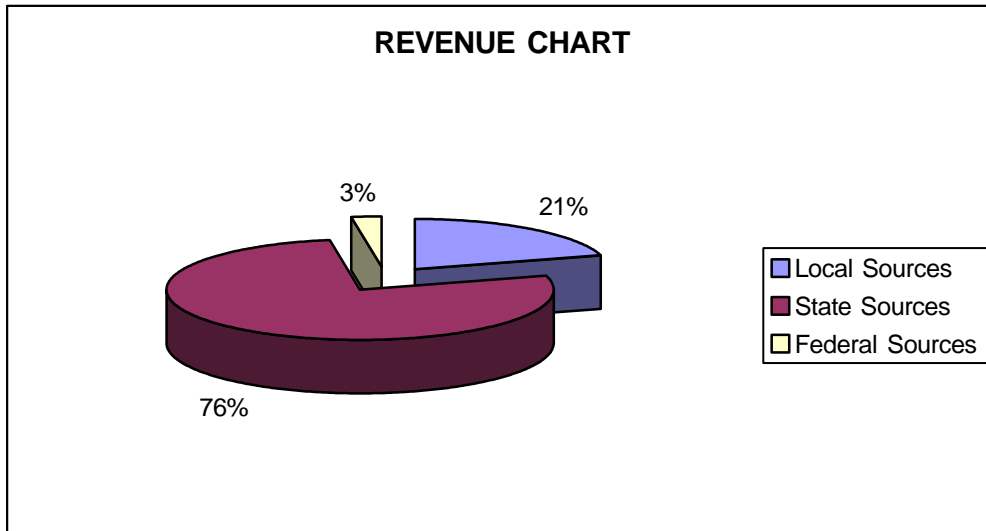
Revenues	<u>June 30, 2004</u>	<u>% of Total</u>
General Revenues		
Property taxes levied for general operations	\$ 837,692	13.7%
State of Michigan unrestricted foundation aid	4,401,722	72.1%
Interest and investment earnings	79,309	1.3%
Other general revenues	<u>235,430</u>	<u>3.9%</u>
Total general revenues	5,554,153	
Operating Grants		
Instruction	255,064	4.2%
Other operating grants	<u>17,627</u>	<u>0.3%</u>
Total operating grants	272,691	
Charges for services		
Food service	212,138	3.5%
Other charges for services	<u>68,183</u>	<u>1.1%</u>
Total charges for services	280,321	
Total Revenues	6,107,165	100.0%
Expenses		
Instruction	3,024,201	48.0%
Supporting Services	1,812,624	28.8%
Food Services	230,091	3.7%
Athletics	175,358	2.8%
Interest on long-term debt	581,772	9.2%
Capital Outlay	63,756	1.0%
Depreciation - unallocated	314,669	5.0%
Payments to other governmental units	<u>95,536</u>	<u>1.5%</u>
Total expenses	6,298,007	100.0%
Increase (decrease) in net assets	(190,842)	
Beginning net assets	<u>2,186,283</u>	
Ending net assets	<u>\$ 1,995,441</u>	

This year, comparative statements are not required because the fiscal year ended June 30, 2004 represents the district's first year of financial reporting under the new GASB 34 guidelines. A comparative Results of Operation Statement will be presented beginning next fiscal year.

**Pewamo-Westphalia Community Schools  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2004**

**Revenues**

The following chart illustrates the District's sources of revenues by type as a percentage of total revenue. The chart includes combined revenues from all District Funds.



**Sources of Revenues**

Local source revenues represent 20% of total district revenues and total \$1,259,839. Local source revenues include revenues from five different funds. General Fund totaled \$283,669, Debt Service Fund totaled \$684,537, Athletic Fund totaled \$63,873, Food Service Fund totaled \$159,383 and Capital Projects totaled \$68,377.

State source revenues total \$4,690,253 and include revenues from both the General Fund and Food Service Fund. General Fund, State of Michigan unrestricted foundation aid totals \$4,401,722 and General Fund, State of Michigan Operating Grants for Instruction totals \$162,847. Food Service Fund State source revenues total \$9,853. In total, State source revenues represent 76% of the districts total revenue.

Federal source revenues total \$157,073 and include revenues of \$96,479 and \$60,594 from the General Fund and Food Service Fund, respectively.

**Pewamo-Westphalia Community Schools  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2004**

**Property Taxes**

Local revenue is provided from the collection of property taxes for the General Fund and Debt Service Retirement Fund and total \$155,165 and \$682,527, respectively. In total, property tax revenue collected totals \$837,692 and represents 13.7% of total district revenues. These taxes are obtained through a voter approved 16.7088 mill levy on the taxable value of non-homestead properties for the District's operations and a voter approved 7.00 mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments. In June of 2004 the voters in the district approved a 3 mill Headlee Override Millage. As a result, next year the district will be able to levy the full 18 mills on all non-homestead property as allowed by law. Over the last 5 years taxable values have increased each year on average of 5.1% for homestead and non-homestead properties, combined. The following table illustrates this increase:

TAXABLE VALUE GROWTH HISTORY

YEAR	TAXABLE VALUE	GROWTH
1999	\$79,561,592	4.7%
2000	\$83,023,499	4.3%
2001	\$88,282,270	6.3%
2002	\$93,666,426	6.0%
2003	\$97,878,904	4.4%

**Unrestricted State Aid Foundation Allowance**

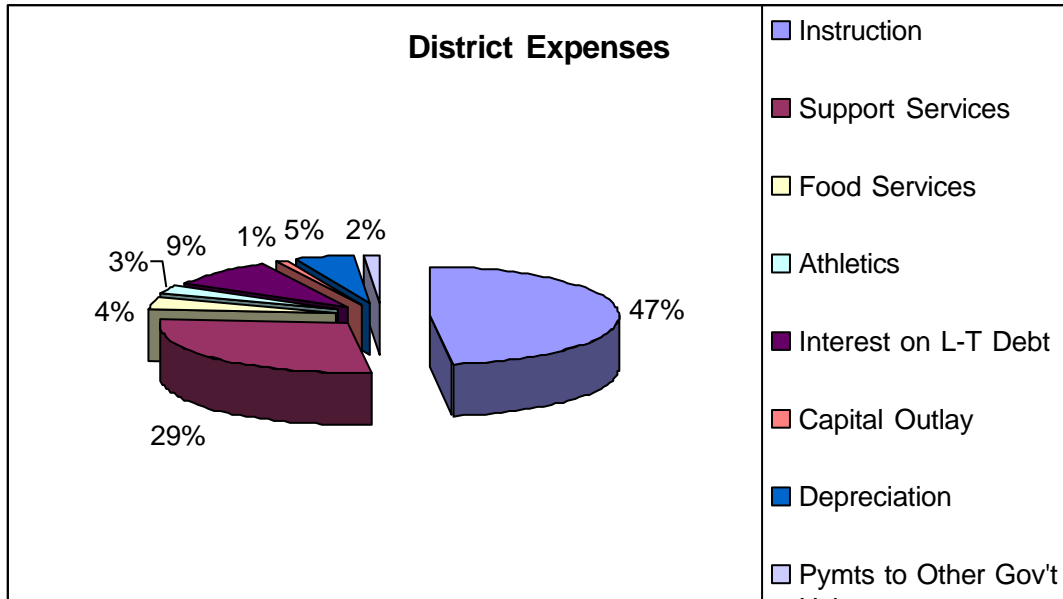
A significant portion of state funding comes to the District through the foundation allowance. The State of Michigan establishes the per student foundation allowance on an annual basis. The districts foundation allowance has remained flat at \$6,898 per student for the past two years. The student enrollment is a blended enrollment number and is determined by adding the sum of 80% of the current year's fall student count to 20% of the prior year's winter student count. For this fiscal year, total blended student enrollment is 684.41. The State Aid Foundation Allowance is then determined by multiplying the blended student enrollment times the per pupil foundation amount. That amount is then reduced by the District's non-homestead tax levy based on 18 mills.

In January 2004, the State of Michigan announced that actual state tax revenues were less than projected. As a result, an executive order was issued and the foundation allowance for all school districts in Michigan was reduced by \$74 per student. This \$74 per pupil reduction decreased the District's revenue by \$50,646.

**Pewamo-Westphalia Community Schools  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2004**

**Expenses**

The following chart illustrates the District's expenses by activity as a percentage of total district expenses.



Total district expenses total \$6,298,007. Instruction expenses total \$3,024,201 or 47% of total district expenses. Support service expense totals \$1,812,624 or 29%, Food Service expense totals \$230,091 or 4%, Athletics expense totals \$175,358 or 3%, Interest on L-T Debt totals \$581,772 or 9%, Capital Outlay totals \$63,756 or 1%, Unallocated Depreciation totals \$314,669 or 5% and Payments to Other Governmental Units totals \$95,536 or 2%.

In September 2002, the voters in the Pewamo-Westphalia district approved a \$6.4 million bond issue to construct a new gymnasium, weight room, football field and track. Construction was completed in April 2004. This project is the final phase of a ten-year facility upgrade plan.

**Pewamo-Westphalia Community Schools  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2004**

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2004, the District had investments in Net Capital Assets totaling \$14,078,074. The following schedule discloses the total gross assets by major category:

**Assets**

Land	\$ 115,000
Buildings and additions	15,611,204
Buses and other vehicles	623,092
Furniture and equipment	<u>829,312</u>
Subtotal	\$ 17,178,608
Less accumulated depreciation	<u>(3,100,534)</u>
Net Capital Assets	<u>\$ 14,078,074</u>

**Debt**

At the end of current year, the District had bonded debt outstanding totaling \$11,445,000. This is a decrease of \$545,000 from last year.

**Economic Factors and Next Year's Budgets and Rates**

The Board of Education and administration consider many factors when setting the School District's 2005 fiscal year budget. Two of the major factors affecting the budget are the student count and the State funding of the unrestricted foundation allowance. As stated earlier in this report the state foundation revenue is determined by multiplying the blended student count by the per pupil foundation allowance. The district's 2005 budget was adopted in June 2004, based on an estimated student enrollment of 680. The foundation allowance was projected to remain flat for the third year in a row at \$6,898. Because the district has been subject to executive orders the last two fiscal years and current state revenues appear to be coming in lower than projected the district also budgeted a decrease of \$100 per student. The district has two union contracts. The teacher contract and support service contract. The teacher contract calls for a 1% increase next year and their contract is scheduled to expire on June 30, 2005. The support service contract expired on June 30, 2004. Discussions continue to take place with the support staff.

**Pewamo-Westphalia Community Schools**  
**Administration's Discussion and Analysis**  
**For the Year Ended June 30, 2004**

The 2003-2004 fiscal year is the last year of labor contracts with Education Association and the International Union of Operating Engineers.

**Original vs. Actual Budget**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget twice during the school year. For fiscal year 2003-2004, the budget was amended in March 2004 and June 2004.

**General Fund Revenues**

**General fund revenues**

Total revenues actual budget	\$5,059,578
Total revenues original budget	<u>5,003,824</u>
	\$ 55,754

**Increase in Revenue Budget**

The District's actual general fund revenues were greater than originally budgeted by \$55,754 a variance of 1.14%.

Some of the significant revised budget adjustments for the year include:

- Governor's executive order cut reduced our State funding by \$50,646.
- Actual blended enrollment was 4.41 students higher than originally projected. This additional student count increased State funding by \$30,420.
- Actual state aid categorical income was \$9,678 higher than originally budgeted due to prior year adjustments.
- The District received \$55,000 from the local ISD, which represents a reimbursement of personnel expenses for services rendered in regards to the county-wide Career Connection Program.
- The District received a one-time fund equity distribution from the ISD totaling \$20,000.
- Miscellaneous other increases and decreases in revenues accounted for the remaining difference.

**General Fund Expenditures**

**General fund expenditures**

Total expenditures actual budget	\$5,145,485
Total expenditures original budget	<u>5,152,692</u>
	\$ (7,207)

**Pewamo-Westphalia Community Schools  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2004**

**Increase in Expenditure Budget**

As indicated on the previous page, the District's actual general fund expenditures were less than the original budget by .14%.

Some of the significant revised budget adjustments for the year include:

- Salary & benefit cost decreased \$47,000 due to the restructuring of a full-time teaching position to part-time.
- Substitute teacher expense increased \$10,500 due to maternity leaves and extended sick leave absence.
- Gas and electric expense increased \$22,000 due to the opening of a new athletic facility.
- A fund modification transferred out increased \$30,000 due to a transfer to the Public Improvement Fund.
- Discretionary and general supplies expense accounts decreased \$26,834 due to a freeze placed on such accounts in February 2004.
- Miscellaneous other increases and decreases in expenses accounted for the remaining difference

**Request for Information**

This financial report is designed to provide a general overview of the Pewamo-Westphalia Community Schools finances for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pewamo-Westphalia Community Schools Central Office, 5101 Clintonia Road, Pewamo, MI 48873.



**Pewamo - Westphalia Community Schools**  
**Statement of Net Assets**  
**June 30, 2004**

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	Governmental Activities
<b>Assets</b>	
Current assets	
Cash	\$ 620,188
Investments	1,231,606
Due from other governmental units	827,172
Inventory	<u>2,923</u>
Total current assets	<u>2,681,889</u>
Noncurrent assets	
Capital assets	
Land	115,000
Buildings and additions	15,611,204
Equipment and furniture	829,312
Buses and other vehicles	623,092
Less: accumulated depreciation	<u>(3,100,534)</u>
Total noncurrent assets	<u>14,078,074</u>
Total assets	<u>\$ 16,759,963</u>

See Accompanying Notes to Financial Statements

**Pewamo - Westphalia Community Schools**  
**Statement of Net Assets**  
**June 30, 2004**

	Governmental Activities
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 24,588
State aid anticipation note payable	700,000
96 building and site bonds payable, current portion	70,000
97 building and site bonds payable, current portion	275,000
02 building and site bonds payable, current portion	250,000
Accrued interest payable	87,127
Payroll deductions, withholdings, and payroll related accrued liabilities	169,291
Accrued salaries payable	320,810
Total current liabilities	<u>1,896,816</u>
Noncurrent liabilities	
Compensated absences payable	18,461
Retirement benefits payable	198,133
96 building and site bonds payable - long-term portion	150,000
97 building and site bonds payable - long-term portion	4,950,000
02 building and site bonds payable - long-term portion	5,750,000
Durant bonds payable	39,393
School bond loan - long-term portion	1,761,719
Total noncurrent liabilities	<u>12,867,706</u>
Total liabilities	<u>14,764,522</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,537,334
Unrestricted	458,107
Total net assets	<u>\$ 1,995,441</u>

See Accompanying Notes to Financial Statements

**Pewamo - Westphalia Community Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 3,024,201	\$ 10,718	\$ 255,064	\$ -	\$ (2,758,419)
Supporting services	1,812,624	-	-	-	(1,812,624)
Food services	230,091	212,138	17,627	-	(326)
Athletics	175,358	57,465	-	-	(117,893)
Interest on long-term debt	581,772	-	-	-	(581,772)
Capital outlay	63,756	-	-	-	(63,756)
Depreciation - unallocated	314,669	-	-	-	(314,669)
Payments to other governmental units	95,536	-	-	-	(95,536)
Total governmental activities	\$ 6,298,007	\$ 280,321	\$ 272,691	\$ -	(5,744,995)
General revenues					
Property taxes, levied for general purposes					837,692
State aid - unrestricted					4,401,722
Interest and investment earnings					79,309
Other					235,430
Total general revenues					5,554,153
Change in net assets					(190,842)
Net assets - beginning					2,186,283
Net assets - ending					\$ 1,995,441

See Accompanying Notes to Financial Statements

**Pewamo - Westphalia Community Schools**  
**Balance Sheet - Governmental Funds**  
**June 30, 2004**

	General Fund	2002 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 486,535	\$ -	\$ 133,653	\$ 620,188
Investments	526,234	705,372	-	1,231,606
Due from other funds	-	-	52,227	52,227
Due from other governmental units	827,172	-	-	827,172
Inventory	-	-	2,923	2,923
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,839,941</u>	<u>\$ 705,372</u>	<u>\$ 188,803</u>	<u>\$ 2,734,116</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ 23,814	\$ -	\$ 774	\$ 24,588
State aid anticipation note payable	700,000	-	-	700,000
Due to other funds	52,227	-	-	52,227
Payroll deductions and withholdings and payroll related accrued liabilities	165,765	-	3,526	169,291
Accrued salaries payable	308,357	-	12,453	320,810
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>1,250,163</u>	<u>-</u>	<u>16,753</u>	<u>1,266,916</u>
<b>Fund Balance</b>				
Reserved for inventories	-	-	2,923	2,923
Reserved for debt service	-	-	54,419	54,419
Reserved for capital projects	-	705,372	-	705,372
Designated for capital projects	-	-	81,973	81,973
Designated for athletics	-	-	30,115	30,115
Other undesignated	589,778	-	2,620	592,398
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>589,778</u>	<u>705,372</u>	<u>172,050</u>	<u>1,467,200</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balance	<u>\$ 1,839,941</u>	<u>\$ 705,372</u>	<u>\$ 188,803</u>	<u>\$ 2,734,116</u>

**Pewamo - Westphalia Community Schools**  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets**  
**June 30, 2004**

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<b>Total fund balances for governmental funds</b>	<b>\$</b>	<b>1,467,200</b>
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Those assets consist of:

Land	\$	115,000	
Buildings and additions		15,611,204	
Equipment and furniture		829,312	
Buses and other vehicles		623,092	
Less: accumulated depreciation		<u>(3,100,534)</u>	14,078,074

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Current-term liabilities balances as of June 30, 2004 are as follows:

1996 building and site bonds payable	(70,000)		
1997 building and site bonds payable	(275,000)		
2002 building and site bonds payable	(250,000)		
Accrued interest payable	<u>(87,127)</u>		(682,127)

Long-term liabilities applicable to the School District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities balances as of June 30, 2004 are as follows:

Compensated absences payable	(18,461)		
Retirement benefits payable	(198,133)		
1996 building and site bonds payable	(150,000)		
1997 building and site bonds payable	(4,950,000)		
2002 building and site bonds payable	(5,750,000)		
Durant bonds payable	(39,393)		
School bond loan	<u>(1,761,719)</u>		<u>(12,867,706)</u>

<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>1,995,441</u></b>
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**Pewamo - Westphalia Community Schools**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2004**

	General Fund	2002 Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 283,669	\$ 67,210	\$ 908,960	\$ 1,259,839
State sources	4,680,400	-	9,853	4,690,253
Federal sources	96,479	-	60,594	157,073
Total revenues	5,060,548	67,210	979,407	6,107,165
Expenditures				
Current				
Education				
Instruction	3,021,881	-	-	3,021,881
Supporting services	1,811,482	-	-	1,811,482
Food services	-	-	230,091	230,091
Athletics	-	-	175,358	175,358
Capital outlay	53,952	4,823,864	9,804	4,887,620
Debt service	-	-	1,086,710	1,086,710
Intergovernmental payments	95,536	-	-	95,536
Total expenditures	4,982,851	4,823,864	1,501,963	11,308,678
Excess (deficiency) of revenues over expenditures	77,697	(4,756,654)	(522,556)	(5,201,513)
Other financing sources (uses)				
Loan proceeds	-	-	408,753	408,753
Transfers in	-	161,656	158,225	319,881
Transfers out	(158,225)	-	(161,656)	(319,881)
Total other financing sources (uses)	(158,225)	161,656	405,322	408,753
Net change in fund balance	(80,528)	(4,594,998)	(117,234)	(4,792,760)
Fund balance - beginning	670,306	5,300,370	289,284	6,259,960
Fund balance - ending	\$ 589,778	\$ 705,372	\$ 172,050	\$ 1,467,200

See Accompanying Notes to Financial Statements

**Pewamo - Westphalia Community Schools**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2004**

<b>Net change in fund balances - total governmental funds</b>		\$ (4,792,760)
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	(314,669)	
Capitalized capital outlay	<u>4,823,864</u>	4,509,195
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Debt issued	(408,753)	
Repayments of long-term debt	<u>545,000</u>	136,247
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable	1,675	
Change in early retirement incentives payable	(5,137)	
Change in accreted interest on school bond loan	(42,592)	
Change in accrued interest on bonds	<u>2,530</u>	<u>(43,524)</u>
<b>Change in net assets of governmental activities</b>		<b>\$ <u>(190,842)</u></b>

**Pewamo - Westphalia Community Schools**  
**Statement of Fiduciary Net Assets**  
**June 30, 2004**

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	Private Purpose Trust Funds	Agency Funds
Assets		
Cash	\$ 10,000	\$ 142,329
Liabilities		
Due to student groups	-	142,329
Net assets		
Reserved for scholarships and loans	10,000	-
Total Liabilities and Net Assets	\$ 10,000	\$ 142,329

See Accompanying Notes to Financial Statements



**Pewamo - Westphalia Community Schools**  
**Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds**  
**Year Ended June 30, 2004**

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	Private Purpose Trust Funds
Additions	
Interest	\$ 664
Deductions	
Awards	<u>664</u>
Change in net assets	-
Net assets - beginning	<u>10,000</u>
Net assets - ending	<u>\$ 10,000</u>

See Accompanying Notes to Financial Statements

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Pewamo-Westphalia Community Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide Financial Statements**

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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**Fund Financial Statements**

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

2002 Capital Projects Fund – The Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service and Athletic Funds. The annual operating surplus or deficit generated by these activities is generally transferred to or from the General Fund.

Debt Service Fund – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Other Capital Projects Funds – The capital project funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designation for acquiring new school sites, buildings, equipment, and for remodeling and repairs.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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*Fiduciary Funds* – Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

*Private Purpose Trust Fund* – These funds are used to account for funds entrusted to the School District and the funds may only be used for specific purposes. They are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

**Assets, Liabilities and Equity**

*Deposits* – Cash include cash on hand, demand deposits and short term investments with a maturity of three months or less when acquired. Certificates of deposit are stated at cost which approximates fair value.

*Receivables and Payables* – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other trades receivable are shown net of an allowance for uncollectible amounts.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2004, the General Fund rate was 16.7088 per \$1,000 of non-homestead assessed value.

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 72% of the School District's tax roll lies within the Townships of Westphalia and Lyons.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before July 31. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Ionia and Clinton and remitted to the School District by May 15.

*Inventories and Prepaid Items* – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

*Capital Assets* – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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Buildings and improvements	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Compensated Absences – Sick days are earned by most employees at the rate of eleven days per year. A maximum of 120 sick days may be accumulated by an employee. Retiring employees who meet certain age and years of service requirements are paid for accumulated sick days to a maximum of 120 days and at a rate determined by their job category. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The amount reported is salary related and includes no fringe benefits, since the amount of said benefits would be immaterial.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Comparative Data**

Comparative data is not included in the School District's financial statements.

### **Eliminations and Reclassifications**

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

### **Economic Dependency**

The School District received approximately 92% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source, the School District is considered to be economically dependent on the Michigan Department of Education.

### **Concentrations**

Approximately 92% of the School District's employees work under collective bargaining agreements. Unions whose existing agreements will expire in fiscal year 2004-05 represent approximately 50% of these employees.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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**Accounting Change**

Effective July 1, 2003, the School District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the School District's overall financial position and results of operations has been included.

District-wide financial statements prepared using full accrual accounting for all of the School District's activities has been provided.

Capital assets in the governmental activities column of the statement of net assets includes capital assets net of depreciation totaling \$ 9,568,879 not reported previously, reflect the historical cost of the School District's capital assets at July 1, 2003. In addition, the governmental activities column includes bonds and other long-term obligations totaling \$13,552,899 at July 1, 2003, which was previously reported in the General Long-term Debt Account Group.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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**Excess of Expenditures over Appropriations**

During the year ended June 30, 2004, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund			
Instruction			
Basic	\$ 2,644,605	\$ 2,661,286	\$ 16,681
Supporting Services			
Business	43,840	44,528	688
Operations and maintenance	501,490	503,798	2,308

**Compliance Bond Proceeds**

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. The following is a summary of the revenue and expenditures in the 1997 and 2002, Capital Project Funds from the inception of the funds through the current fiscal year:

	<u>1997</u>	<u>2002</u>
Revenues	\$ 7,740,295	\$ 6,605,442
Expenditures	7,740,295	5,900,070

For these capital projects, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits and investments are in accordance with statutory authority.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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At June 30, 2004, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 620,188	\$ 152,329	\$ 772,517
Investments	<u>1,231,606</u>	<u>-</u>	<u>1,231,606</u>
	<u><u>\$ 1,851,794</u></u>	<u><u>\$ 152,329</u></u>	<u><u>\$ 2,004,123</u></u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 772,517
Investments in securities, mutual funds, and similar vehicles	<u>1,231,606</u>
Total	<u><u>\$ 2,004,123</u></u>

The deposits of the School District were reflected in the accounts of financial institutions at \$ 861,545 of which \$ 119,200 is covered by federal depository insurance.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the school district or its agent in the school district's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the school district's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the school district's name.



**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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At June 30, 2004, the School District's investment balances were categorized as follows:

	<u>Carrying Amount</u>
Bank investment pools	
Interlocal agreement investment pools (i.e., MILAF)	<u>\$ 1,231,606</u>

**NOTE 4 - CAPITAL ASSETS**

A summary of the changes in governmental capital assets is as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2004</u>
Assets not being depreciated				
Land	\$ 115,000	\$ -	\$ -	\$ 115,000
Construction in progress	1,227,762	-	(1,227,762)	-
Other capital assets				
Buildings and improvements	9,682,247	5,928,957	-	15,611,204
Buses and other vehicles	623,092	-	-	623,092
Furniture and equipment	<u>706,643</u>	<u>122,669</u>	<u>-</u>	<u>829,312</u>
Subtotal	<u>12,354,744</u>	<u>6,051,626</u>	<u>(1,227,762)</u>	<u>17,178,608</u>
Accumulated depreciation				
Buildings and improvements	(1,971,393)	(212,885)	-	(2,184,278)
Buses and other vehicles	(526,616)	(24,845)	-	(551,461)
Furniture and equipment	<u>(287,856)</u>	<u>(76,939)</u>	<u>-</u>	<u>(364,795)</u>
Subtotal	<u>(2,785,865)</u>	<u>(314,669)</u>	<u>-</u>	<u>(3,100,534)</u>
Net capital assets	<u>\$ 9,568,879</u>	<u>\$ 5,736,957</u>	<u>\$ (1,227,762)</u>	<u>\$ 14,078,074</u>

Depreciation for the fiscal year ended June 30, 2004, amounted to \$ 314,669. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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**NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS**

Individual interfund receivable and payable balances at June 30, 2004, were:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>	<u>Purpose</u>
General Fund	\$ -	\$ 52,227	Reimbursement of District expenditures paid by other the Capital Projects funds.
Capital Projects Fund	52,227	-	Reimbursement of District general fund expenditures paid by the Capital Projects fund.
	<u>\$ 52,227</u>	<u>\$ 52,227</u>	

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year ended June 30, 2004, between the General Fund and the Capital Projects Fund, Food Service Fund, and the Athletic Fund totaling \$ 319,881. These transfers were made to cover the costs of the School District's programs that were in excess of revenues generated from those activities.

**NOTE 6 - STATE AID ANTICIPATION NOTE**

The District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the District receives state aid from October through the following August for its fiscal year ending June 30<sup>th</sup>. The principal of state aid anticipation note plus interest is due on August 20, 2004.

Short-term debt activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	<u>\$ 628,000</u>	<u>\$ 700,000</u>	<u>\$ 628,000</u>	<u>\$ 700,000</u>

**NOTE 7 - LONG-TERM DEBT**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and termination benefits.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Government obligation bonds	\$ 11,990,000	\$ -	\$ 545,000	\$ 11,445,000	\$ 595,000
Durant bonds	39,393	-	-	39,393	-
School Bond Loan Fund	1,310,374	451,345	-	1,761,719	-
Compensated absences	20,136	-	1,675	18,461	-
Retirement benefits	<u>192,996</u>	<u>5,137</u>	<u>-</u>	<u>198,133</u>	<u>-</u>
Total	<u>\$ 13,552,899</u>	<u>\$ 456,482</u>	<u>\$ 546,675</u>	<u>\$ 13,462,706</u>	<u>\$ 595,000</u>

General obligation bonds payable at June 30, 2004, consists of the following:

\$ 760,000 serial bond due in annual installments of \$ 70,000 to \$ 75,000 through May 1, 2007, interest at 5.0%	220,000
\$ 7,135,000 serial bond due in annual installments of \$ 275,000 through May 1, 2023, interest at 5.0% to 5.1%	5,225,000
\$ 6,400,000 serial bond due in annual installments of \$200,000 to \$ 250,000 through May 1, 2028, interest at 3.0% to 4.8%	<u>6,000,000</u>
Total general obligation bonded debt	<u>\$ 11,445,000</u>

Future principal and interest requirements for bonded debt is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 595,000	\$ 517,614	\$ 1,112,614
2006	600,000	492,862	1,092,862
2007	600,000	467,864	1,067,864
2008	525,000	442,862	967,862
2009	525,000	421,614	946,614
2010-2014	2,625,000	1,773,434	4,398,434
2015-2019	2,625,000	1,184,110	3,809,110
2020-2024	2,350,000	554,624	2,904,624
2025-2028	<u>1,000,000</u>	<u>119,626</u>	<u>1,119,626</u>
	<u>\$ 11,445,000</u>	<u>\$ 5,974,610</u>	<u>\$ 17,419,610</u>

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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The general obligation bonds are payable from the Debt Service Funds. As of June 30, 2004, the fund had a balance of \$ 54,419 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the following:

\$ 61,661 Durant Refunding serial bonds due in  
annual installments through May 15, 2013; interest at 4.76%  
due annually \$ 39,393

These bond obligations issued by PA 142 are payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments. The State Legislature has no obligation to make such appropriations. In the event the Legislature fails to appropriate funds, the School District is under no obligation for repayment of the debt obligation issued by PA 142.

Future principal and interest requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,985	\$ 1,345	\$ 4,330
2007	14,261	6,172	20,433
2008	3,276	1,054	4,330
2009	3,432	898	4,330
2010	3,595	735	4,330
2011-2013	<u>11,844</u>	<u>1,147</u>	<u>12,991</u>
	<u>\$ 39,393</u>	<u>\$ 11,351</u>	<u>\$ 50,744</u>

#### **State School Bond Loan**

The state School bond loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District borrowed \$ 408,753 and had an outstanding balance at year of \$ 1,761,719, from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer. In addition, interest is included in the outstanding loan balance and has accrued totaling \$ 221,158.

#### **Compensated Absences**

Accrued compensated absences at June 30, 2004 consists of \$ 18,461 of sick hours earned and vested.

#### **Retirement Benefits**

The School District offered a voluntary severance incentive plan to employees to be paid over a five year period through 2006. The balance as of June 30, 2004, was \$ 198,133.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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Interest expenditures for fiscal year 2004, in the General Fund and Debt Service Funds were \$ 9,524 and \$ 540,860, respectively.

**NOTE 8 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees.

In addition to risks described above, the District is subject to risk of loss as a result of employee injuries (worker's compensation). To minimize such risks of loss, the School District participates in a public entity risk pool through the School Employers Group. The School District's contribution to the pool during fiscal year 2003-04 net of prior year rebates amounted to \$ 4,815. The possibility of additional liabilities in excess of current year contributions exists, however, these amounts are indeterminable and believed to be immaterial, and as such not contingent liabilities have been recognized on the District's financial statements for the year ended June 30, 2004.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the School District must reimburse the Employment Commission for all benefits charged against the School District for the year. The School District had \$37 unemployment compensation expense for the year ended June 30, 2004. No provision has been made for possible future claims.

**NOTE 9 - DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to:

Office of Retirement Services  
P.O. Box 30171  
Lansing, Michigan 48909-7671  
800-381-5111

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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**Funding Policy**

The School is required by State statute to contribute to MPSERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPSERS contribution is allocated to cover health, dental and vision benefits.

The following table discloses pertinent information relative to MPSERS funding for the three-year period beginning July 1, 2002 through June 30, 2004.

	<u>Year Ended June 30.</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Funding Percentage Range	12.99%	12.17%-12.99%	12.16-12.17%
Total school, payroll	\$ 3,194,275	\$ 3,196,892	\$ 3,058,406
Total covered payroll	3,110,329	3,125,414	2,954,432
School contributions	408,387	399,998	359,487
Employee MIP contributions	79,439	79,512	73,939
Portion of school contribution covering health, dental and vision benefits	47%	47%	46%

**Trend Information**

Ten-year historical trend information is presented in the September 30, 2003, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2002, the latest date for which information is available, approximates \$ 42 billion and \$ 38.4 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2003.

**Post Employment Benefits**

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2003, statewide expenditures of \$ 606.7 million were recognized for post-retirement health care, dental and vision. This represented approximately 21% of the total expenditures of the Michigan Public School Employees Retirement System.

**Pewamo-Westphalia Community Schools**  
**Notes to Financial Statements**  
**June 30, 2004**

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**NOTE 10 - FUND EQUITY**

Specific reservations on fund equity include:

Reserved for inventories – This reserve was created to indicate that the portion of fund balance represented by inventories is not available for appropriation and expenditure.

Reserved for debt service – This reserve was created to segregate a portion of the fund balance account for debt service, including both principal payments and interest payments. The reservation was established to satisfy legal restrictions imposed by various bond agreements.

Reserved for capital projects – This reserve was created to restrict the use of bond proceeds. The reservation was created to satisfy legal restrictions imposed on the bond agreement.

Reserved for scholarship s – This reserve was created to restrict the use of all the expendable resources contributed to or earned by the Scholarship Fund. The restriction is mandated by donor agreements.

Specific designations include the following:

Designated for athletics – This reserve was created to set aside the use of all resources earned by the Athletics Fund. This money is specifically earmarked for operation of the School District athletic programs.

Designated for capital projects – This reserve was created to set aside the use of resources in the Capital Projects Fund. This money is specifically earmarked for public improvement.

**NOTE 11 - CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**NOTE 12 - SUBSEQUENT EVENT**

Subsequent to June 30, 2004, the School District has paid the balance of the \$ 700,000 and accrued interest on the short-term state aid anticipation not borrowed in August of 2003 and has subsequently borrowed \$ 232,324 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. Proceeds from the borrowing will be distributed to the School District in August of 2004.

**Pewamo - Westphalia Community Schools**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**Year Ended June 30, 2004**

	Budgeted Amounts			Over (under)
	Original	Final	Actual	Final Budget
Revenues				
Local	\$ 274,835	\$ 282,765	\$ 283,669	\$ 904
State	4,673,153	4,680,334	4,680,400	66
Federal	55,836	96,479	96,479	-
Total revenues and other sources	5,003,824	5,059,578	5,060,548	970
Expenditures				
Instruction				
Basic programs	2,745,049	2,644,605	2,661,286	16,681
Added needs	378,250	364,583	360,595	(3,988)
Supporting services				
Pupil	198,550	251,806	249,818	(1,988)
General administration	272,203	255,798	255,496	(302)
School administration	325,950	323,060	322,209	(851)
Business	46,750	43,840	44,528	688
Operations and maintenance	484,280	501,490	503,798	2,308
Pupil transportation	403,210	381,047	369,887	(11,160)
Planning, research development	72,950	68,356	65,746	(2,610)
Capital outlay	-	54,000	53,952	(48)
Intergovernmental payments	95,500	96,900	95,536	(1,364)
Other uses - operating transfers	130,000	160,000	158,225	(1,775)
Total expenditures and other uses	5,152,692	5,145,485	5,141,076	(4,409)
Net change in fund balance	(148,868)	(85,907)	(80,528)	5,379
Fund balance - beginning	670,306	670,306	670,306	-
Fund balance - ending	\$ 521,438	\$ 584,399	\$ 589,778	\$ 5,379



**Pewamo - Westphalia**  
**Other Supplemental Information**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2004**

	<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Debt Service Funds</u>			<u>Nonmajor Capital Project Funds</u>		Total Nonmajor Governmental Funds
	<u>Food Services</u>	<u>Athletics</u>	<u>1996 Issue</u>	<u>1997 Issue</u>	<u>2002 Issue</u>	<u>1997 Project</u>	<u>Public Improvement</u>	
Assets								
Cash	\$ 14,687	\$ 34,801	\$ 33,435	\$ 10,492	\$ 10,492	\$ -	\$ 29,746	\$ 133,653
Due from other funds	-	-	-	-	-	-	52,227	52,227
Inventory	<u>2,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,923</u>
Total assets	<u>\$ 17,610</u>	<u>\$ 34,801</u>	<u>\$ 33,435</u>	<u>\$ 10,492</u>	<u>\$ 10,492</u>	<u>\$ -</u>	<u>\$ 81,973</u>	<u>\$ 188,803</u>
Liabilities and Fund Balance								
Liabilities								
Accounts payable	\$ 774	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 774
Accrued salaries	8,933	3,520	-	-	-	-	-	12,453
Accrued employee benefits and payroll taxes	<u>2,360</u>	<u>1,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,526</u>
Total liabilities	<u>12,067</u>	<u>4,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,753</u>
Fund Balance								
Reserved								
Reserved for inventories	2,923	-	-	-	-	-	-	2,923
Reserved for debt service	-	-	33,435	10,492	10,492	-	-	54,419
Designated for capital projects	-	-	-	-	-	-	81,973	81,973
Unreserved								
Undesignated	<u>2,620</u>	<u>30,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,735</u>
Total fund balance	<u>5,543</u>	<u>30,115</u>	<u>33,435</u>	<u>10,492</u>	<u>10,492</u>	<u>-</u>	<u>81,973</u>	<u>172,050</u>
Total liabilities and fund balance	<u>\$ 17,610</u>	<u>\$ 34,801</u>	<u>\$ 33,435</u>	<u>\$ 10,492</u>	<u>\$ 10,492</u>	<u>\$ -</u>	<u>\$ 81,973</u>	<u>\$ 188,803</u>

**Pewamo - Westphalia Community Schools**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

	<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Debt Service Funds</u>			<u>Nonmajor Capital Project Funds</u>		Total Nonmajor Governmental Funds
	<u>Food Services</u>	<u>Athletics</u>	<u>1996 Issue</u>	<u>1997 Issue</u>	<u>2002 Issue</u>	<u>1997 Project</u>	<u>Public Improvement</u>	
Revenues								
Local	\$ 159,383	\$ 63,873	\$ 97,791	\$ 293,370	\$ 293,376	\$ 959	\$ 208	\$ 908,960
State	9,853	-	-	-	-	-	-	9,853
Federal	60,594	-	-	-	-	-	-	60,594
Total revenues	<u>229,830</u>	<u>63,873</u>	<u>97,791</u>	<u>293,370</u>	<u>293,376</u>	<u>959</u>	<u>208</u>	<u>979,407</u>
Expenditures								
Food services	230,091	-	-	-	-	-	-	230,091
Athletics	-	175,358	-	-	-	-	-	175,358
Debt service	-	-	84,800	552,222	449,688	-	-	1,086,710
Capital outlay	5,204	-	-	-	-	4,600	-	9,804
Total expenditures	<u>235,295</u>	<u>175,358</u>	<u>84,800</u>	<u>552,222</u>	<u>449,688</u>	<u>4,600</u>	<u>-</u>	<u>1,501,963</u>
Other Financing Sources (uses)								
Loan proceeds	-	-	-	254,580	154,173	-	-	408,753
Transfers in	5,000	123,225	-	-	-	-	30,000	158,225
Transfers out	-	-	-	-	-	(161,656)	-	(161,656)
Total other financing sources (uses)	5,000	123,225	-	254,580	154,173	(161,656)	30,000	405,322
Net change in fund balance	(465)	11,740	12,991	(4,272)	(2,139)	(165,297)	30,208	(117,234)
Fund balance - beginning	<u>6,008</u>	<u>18,375</u>	<u>20,444</u>	<u>14,764</u>	<u>12,631</u>	<u>165,297</u>	<u>51,765</u>	<u>289,284</u>
Fund balance - ending	<u>\$ 5,543</u>	<u>\$ 30,115</u>	<u>\$ 33,435</u>	<u>\$ 10,492</u>	<u>\$ 10,492</u>	<u>\$ -</u>	<u>\$ 81,973</u>	<u>\$ 172,050</u>

**Pewamo - Westphalia Community Schools**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2004 and 2003**

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	<u>2004</u>	<u>2003</u>
Assets		
Cash	\$ 486,535	\$ 905,452
Investments	526,234	-
Accounts receivable	-	1,346
Due from other governmental units	827,172	862,864
Prepaid expenses	<u>-</u>	<u>3,188</u>
Total Assets	<u><u>\$ 1,839,941</u></u>	<u><u>\$ 1,772,850</u></u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 23,814	\$ 54,725
Notes payable	700,000	628,000
Accrued salaries	308,357	267,617
Accrued benefits	103,964	93,706
Accrued retirement and FICA	61,801	53,981
Due to other funds	<u>52,227</u>	<u>42,116</u>
Total liabilities	<u>1,250,163</u>	<u>1,140,145</u>
Fund Balance	<u>589,778</u>	<u>670,306</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,839,941</u></u>	<u><u>\$ 1,810,451</u></u>

**Pewamo - Westphalia Community Schools**  
**General Fund**  
**Schedule of Revenues - Budget to Actual**  
**Year Ended June 30, 2004 with Comparative Totals for June 30, 2003**

	2004			2003
	Budget	Actual	Over (Under) Budget	Actual
Revenue From Local Sources				
Property tax levy	\$ 153,998	\$ 155,159	\$ 1,161	\$ 149,501
Rental income	2,500	2,573	73	2,369
Transportation	9,100	9,698	598	6,130
Earnings from investments and deposits	8,500	8,551	51	10,454
Other local revenues	108,667	107,688	(979)	105,697
Total revenue from local sources	282,765	283,669	904	274,151
Revenue From State Sources				
Grants - unrestricted				
State school aid	4,401,722	4,401,722	-	4,500,338
Grants - restricted				
At Risk	29,861	29,797	(64)	28,439
Special education	112,000	112,037	37	78,208
Vocational education	7,313	7,314	1	1,211
Durant	6,166	6,166	-	6,166
Driver education	7,533	7,533	-	8,194
Class size reduction	31,239	31,239	-	35,076
Other	84,500	84,592	92	3,460
Total revenue from state sources	4,680,334	4,680,400	66	4,661,092
Revenue From Federal Sources				
Grants - restricted - received through the State				
Title 1	57,146	57,146	-	84,637
Grants - restricted - received through				
intermediate government sources	39,333	39,333	-	38,759
Total revenue from federal sources	96,479	96,479	-	123,396
Total Revenues	<u>\$ 5,059,578</u>	<u>\$ 5,060,548</u>	<u>\$ 970</u>	<u>\$ 5,058,639</u>

**Pewamo - Westphalia Community Schools**  
**General Fund**  
**Schedule of Expenditures Budget to Actual**  
**Year Ended June 30, 2004 with Comparative Totals for June 30, 2003**

	2004			2003
	Budget	Actual	Over (Under) Budget	Actual
Instruction				
Elementary				
Salaries	\$ 704,310	\$ 708,049	\$ 3,739	\$ 692,800
Employee benefits	273,920	278,304	4,384	267,492
Purchased services	33,950	31,511	(2,439)	20,481
Supplies and materials	25,800	24,818	(982)	26,973
Other	1,116	616	(500)	666
	<u>1,039,096</u>	<u>1,043,298</u>	<u>4,202</u>	<u>1,008,412</u>
Junior High				
Salaries	288,713	290,958	2,245	314,047
Employee benefits	124,600	125,954	1,354	119,220
Purchased services	12,200	10,745	(1,455)	12,876
Supplies and materials	11,500	11,527	27	15,704
Other	680	480	(200)	165
	<u>437,693</u>	<u>439,664</u>	<u>1,971</u>	<u>462,012</u>
High school				
Salaries	756,033	763,082	7,049	760,117
Employee benefits	293,200	297,317	4,117	283,942
Purchased services	34,800	32,851	(1,949)	37,058
Supplies and materials	70,150	72,209	2,059	89,247
Other	6,100	5,332	(768)	7,398
	<u>1,160,283</u>	<u>1,170,791</u>	<u>10,508</u>	<u>1,177,762</u>
Other basic programs				
Purchased services	<u>7,533</u>	<u>7,533</u>	<u>-</u>	<u>8,194</u>
Added needs				
Special education				
Salaries	173,500	174,323	823	161,080
Employee benefits	78,000	79,712	1,712	70,175
Purchased services	6,200	5,946	(254)	8,189
Supplies and materials	650	507	(143)	3,679
	<u>258,350</u>	<u>260,488</u>	<u>2,138</u>	<u>243,123</u>

**Pewamo - Westphalia Community Schools**  
**General Fund**  
**Schedule of Expenditures - Budget to Actual**  
**Year Ended June 30, 2004 with Comparative Totals for June 30, 2003**

	2004			2003
	Budget	Actual	Over (Under) Budget	Actual
Compensatory education				
Salaries	\$ 40,700	\$ 40,342	\$ (358)	\$ 40,690
Employee benefits	10,085	10,003	(82)	10,062
Purchased services	805	790	(15)	816
Supplies and materials	13,150	7,211	(5,939)	16,895
	<u>64,740</u>	<u>58,346</u>	<u>(6,394)</u>	<u>68,463</u>
Other added needs				
Salaries	28,550	28,850	300	28,526
Employee benefits	12,443	12,496	53	11,540
Purchased services	400	334	(66)	1,017
Supplies and materials	100	81	(19)	57
	<u>41,493</u>	<u>41,761</u>	<u>268</u>	<u>41,140</u>
Total Instruction	<u>3,009,188</u>	<u>3,021,881</u>	<u>12,693</u>	<u>3,009,106</u>
Supporting Services				
Pupil				
Guidance services				
Salaries	182,135	182,932	797	142,302
Employee benefits	65,971	63,980	(1,991)	44,851
Purchased services	2,000	1,371	(629)	2,038
Supplies and materials	1,700	1,535	(165)	2,953
	<u>251,806</u>	<u>249,818</u>	<u>(1,988)</u>	<u>192,144</u>
General administration				
Board of education				
Salaries	1,525	1,545	20	2,088
Employee benefits	100	78	(22)	75
Purchased services	21,250	23,901	2,651	25,668
Supplies and materials	2,000	675	(1,325)	882
Other	6,000	5,706	(294)	6,505
	<u>30,875</u>	<u>31,905</u>	<u>1,030</u>	<u>35,218</u>
Executive administration				
Salaries	147,953	147,894	(59)	147,725
Employee benefits	64,620	64,536	(84)	59,872
Purchased services	7,050	7,354	304	8,428
Supplies and materials	3,300	1,715	(1,585)	3,069
Other	2,000	2,092	92	1,945
	<u>224,923</u>	<u>223,591</u>	<u>(1,332)</u>	<u>221,039</u>

**Pewamo - Westphalia Community Schools**  
**General Fund**  
**Schedule of Expenditures - Budget to Actual**  
**Year Ended June 30, 2004 with Comparative Totals for June 30, 2003**

	2004			2003
	Budget	Actual	Over (Under) Budget	Actual
School administration				
Office of the principal				
Salaries	\$ 227,200	\$ 226,876	\$ (324)	\$ 229,370
Employee benefits	89,760	89,897	137	84,511
Purchased services	4,000	3,704	(296)	2,675
Supplies and materials	900	890	(10)	745
Other	1,200	842	(358)	1,399
	<u>323,060</u>	<u>322,209</u>	<u>(851)</u>	<u>318,700</u>
Other business services				
State Aid borrowing fee	2,900	2,901	1	2,453
Interest - notes payable	7,750	7,524	(226)	9,617
Taxes abated	1,500	2,413	913	8,198
Insurance	31,690	31,690	-	30,473
	<u>43,840</u>	<u>44,528</u>	<u>688</u>	<u>50,741</u>
Operating and maintenance of plant				
Salaries	173,000	175,118	2,118	181,094
Employee benefits	84,190	84,266	76	82,799
Purchased services	183,500	187,051	3,551	115,769
Supplies and materials	60,000	56,580	(3,420)	62,961
Other	800	783	(17)	856
	<u>501,490</u>	<u>503,798</u>	<u>2,308</u>	<u>443,479</u>
Pupil transportation services				
Salaries	222,600	221,105	(1,495)	248,683
Employee benefits	72,406	71,603	(803)	71,215
Purchased services	28,241	26,913	(1,328)	28,664
Supplies and materials	57,500	49,863	(7,637)	69,775
Other	300	403	103	416
	<u>381,047</u>	<u>369,887</u>	<u>(11,160)</u>	<u>418,753</u>
Planning, Research Development				
Salaries	38,800	38,045	(755)	37,354
Employee benefits	13,606	13,582	(24)	12,861
Purchased services	10,900	10,052	(848)	14,623
Supplies and materials	5,000	4,067	(933)	3,651
Other	50	-	(50)	-
	<u>68,356</u>	<u>65,746</u>	<u>(2,610)</u>	<u>68,489</u>
Total Supporting Services	<u>1,825,397</u>	<u>1,811,482</u>	<u>(13,915)</u>	<u>1,748,563</u>

**Pewamo - Westphalia Community Schools**  
**General Fund**  
**Schedule of Expenditures - Budget to Actual**  
**Year Ended June 30, 2004 with Comparative Totals for June 30, 2003**

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	<u>2004</u>			<u>2003</u>
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>	<u>Actual</u>
Intergovernmental payments	\$ 96,900	\$ 95,536	\$ (1,364)	\$ 85,778
Capital outlay				
Instruction	-	-	-	25,663
Support services	<u>54,000</u>	<u>53,952</u>	<u>(48)</u>	<u>32,678</u>
	<u>54,000</u>	<u>53,952</u>	<u>(48)</u>	<u>58,341</u>
Other financing uses				
Fund modification				
Capital projects fund	30,000	30,000	-	30,000
School service fund	5,000	5,000	-	10,000
Athletic fund	<u>125,000</u>	<u>123,225</u>	<u>(1,775)</u>	<u>117,928</u>
Total other financing uses	<u>160,000</u>	<u>158,225</u>	<u>(1,775)</u>	<u>157,928</u>
Total expenditures and other financing uses	<u>\$ 5,145,485</u>	<u>\$ 5,141,076</u>	<u>\$ (4,409)</u>	<u>\$ 5,059,716</u>



**Pewamo - Westphalia Community Schools**  
**Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2004 with Comparative Totals for June 30, 2003**

	2004			2003
	Food Service	Athletics	Total	Total
<b>Assets</b>				
Cash	\$ 14,687	\$ 34,801	\$ 49,488	\$ 28,513
Due from general fund	-	-	-	12,116
Inventory	2,923	-	2,923	2,525
<b>Total Assets</b>	<b>\$ 17,610</b>	<b>\$ 34,801</b>	<b>\$ 52,411</b>	<b>\$ 43,154</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ 774	\$ -	\$ 774	\$ -
Accrued salaries	8,933	3,520	12,453	14,193
Accrued employee benefits and payroll taxes	2,360	1,166	3,526	4,578
<b>Total liabilities</b>	<b>12,067</b>	<b>4,686</b>	<b>16,753</b>	<b>18,771</b>
<b>Fund Balance</b>	<b>5,543</b>	<b>30,115</b>	<b>35,658</b>	<b>24,383</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 17,610</b>	<b>\$ 34,801</b>	<b>\$ 52,411</b>	<b>\$ 43,154</b>

**Pewamo - Westphalia Community Schools**  
**Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Year Ended June 30, 2004 with Comparative Totals for June 30, 2003**

	2004			2003
	Food Service	Athletics	Total	Total
Revenues				
Local sources	\$ 159,383	\$ 63,873	\$ 223,256	\$ 215,505
State sources	9,853	-	9,853	11,708
Federal sources	42,967	-	42,967	38,176
Federal sources - Commodities	17,627	-	17,627	10,640
Total revenues	229,830	63,873	293,703	276,029
Expenditures				
Salaries	79,682	95,802	175,484	173,985
Employee benefits	20,557	23,552	44,109	42,477
Purchased services	543	12,685	13,228	15,760
Supplies, materials and other	129,309	43,319	172,628	166,429
Capital outlay	5,204	-	5,204	4,792
Total expenditures	235,295	175,358	410,653	403,443
Other Financing Sources				
Incoming transfers - General Fund	5,000	123,225	128,225	127,928
Excess (deficiency) of revenues and other financing sources over expenditures	(465)	11,740	11,275	514
Fund Balance - July 1	6,008	18,375	24,383	23,869
Fund Balance - June 30	\$ 5,543	\$ 30,115	\$ 35,658	\$ 24,383

**Pewamo - Westphalia Community Schools**  
**Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2004 with Comparative Totals for June 30, 2003**

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	<u>2004</u>				<u>2003</u>
	<u>1996 Issue</u>	<u>1997 Issue</u>	<u>2002 Issue</u>	<u>Total</u>	<u>Total</u>
Assets					
Cash	\$ 33,435	\$ 10,492	\$ 10,492	\$ 54,419	\$ 43,111
Accounts receivable	-	-	-	-	7,041
Total Assets	<u>\$ 33,435</u>	<u>\$ 10,492</u>	<u>\$ 10,492</u>	<u>\$ 54,419</u>	<u>\$ 50,152</u>
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 2,313
Fund Balance	<u>33,435</u>	<u>10,492</u>	<u>10,492</u>	<u>54,419</u>	<u>47,839</u>
Total Liabilities and Fund Balance	<u>\$ 33,435</u>	<u>\$ 10,492</u>	<u>\$ 10,492</u>	<u>\$ 54,419</u>	<u>\$ 50,152</u>

**Pewamo - Westphalia Community Schools**  
**Debt Service Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Year Ended June 30, 2004 with Comparative Totals for June 30, 2003**

	2004				2003
	1996 Issue	1997 Issue	2002 Issue	Total	Total
Revenues					
Local sources					
Property tax levy	\$ 97,505	\$ 292,514	\$ 292,514	\$ 682,533	\$ 659,142
Earnings on investments	286	856	862	2,004	3,488
Total revenues	97,791	293,370	293,376	684,537	662,630
Expenditures					
Redemption of principal	70,000	275,000	200,000	545,000	545,000
Interest	14,500	276,922	249,438	540,860	427,747
Paying agent fees	300	300	250	850	880
Total expenditures	84,800	552,222	449,688	1,086,710	973,627
Other financing sources					
Loan proceeds	-	254,580	154,173	408,753	165,000
Excess (deficiency) of revenues and other financing sources over expenditures	12,991	(4,272)	(2,139)	6,580	(145,997)
Fund Balance - July 1	20,444	14,764	12,631	47,839	193,836
Fund Balance - June 30	\$ 33,435	\$ 10,492	\$ 10,492	\$ 54,419	\$ 47,839

**Pewamo - Westphalia Community Schools**  
**Capital Projects Funds**  
**Combining Balance Sheet**  
**June 30, 2004 with Comparative Totals for June 30, 2003**

		2004				2003
		1997 Project	2002 Project	Public Improvement	Total	Total
<b>Assets</b>						
Cash		\$ -	\$ -	\$ 29,746	\$ 29,746	\$ 563,137
Investments		-	705,372	-	705,372	5,291,968
Due from other funds		-	-	52,227	52,227	30,000
		<u>-</u>	<u>-</u>	<u>52,227</u>	<u>52,227</u>	<u>30,000</u>
Total Assets		<u>\$ -</u>	<u>\$ 705,372</u>	<u>81,973</u>	<u>\$ 787,345</u>	<u>\$ 5,885,105</u>
<b>Liabilities and Fund Balance</b>						
Liabilities						
Accounts payable		\$ -	\$ -	\$ -	\$ -	\$ 330,072
		<u>-</u>	<u>705,372</u>	<u>81,973</u>	<u>787,345</u>	<u>5,517,432</u>
Fund Balance		<u>-</u>	<u>705,372</u>	<u>81,973</u>	<u>787,345</u>	<u>5,517,432</u>
Total Liabilities and Fund Balance		<u>\$ -</u>	<u>\$ 705,372</u>	<u>\$ 81,973</u>	<u>\$ 787,345</u>	<u>\$ 5,847,504</u>

**Pewamo - Westphalia Community Schools**  
**Capital Projects Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Year Ended June 30, 2004 with Comparative Totals for June 30, 2003**

	2004				2003
	1997 Project	2002 Project	Public Improvement	Total	Total
Revenues					
Local sources					
Earnings on investments	\$ 959	\$ 67,210	\$ 208	\$ 68,377	\$ 18,136
Other financing sources					
Bond proceeds	-	-	-	-	6,363,159
Transfers in	-	161,656	30,000	191,656	30,000
Total revenues and other financing sources	959	228,866	30,208	260,033	6,411,295
Expenditures					
Bond issuance costs	-	-	-	-	50,138
Capital outlay	4,600	4,823,864	-	4,828,464	1,064,372
Other financing uses					
Transfers out	161,656	-	-	161,656	-
Total expenditures and other financing uses	166,256	4,823,864	-	4,990,120	1,114,510
Excess (deficiency) of revenues over expenditures	(165,297)	(4,594,998)	30,208	(4,730,087)	5,296,785
Fund Balance - July 1	165,297	5,300,370	51,765	5,517,432	220,647
Fund Balance - June 30	\$ -	\$ 705,372	\$ 81,973	\$ 787,345	\$ 5,517,432

**Pewamo - Westphalia Community Schools**  
**Trust and Agency Funds**  
**Combining Balance Sheet**  
**June 30, 2004 with Comparative Totals for June 30, 2003**

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	2004			2003
	Trust Fund	Agency Fund	Total	Total
<b>Assets</b>				
Cash	<u>\$ 10,000</u>	<u>\$ 142,329</u>	<u>\$ 152,329</u>	<u>\$ 127,184</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Due to student groups	\$ -	\$ 142,329	\$ 142,329	\$ 117,184
Fund Balance	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Total Liabilities and Fund Balance	<u>\$ 10,000</u>	<u>\$ 142,329</u>	<u>\$ 152,329</u>	<u>\$ 127,184</u>

**Pewamo - Westphalia Community Schools**  
**Private Purpose Trust Fund**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Year Ended June 30, 2004 and 2003**

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	<u>2004</u>	<u>2003</u>
Revenues		
Earnings from investments	<u>\$ 664</u>	<u>\$ 294</u>
Expenditures		
Scholarships	<u>664</u>	<u>294</u>
Excess of revenues over expenditures	-	-
Fund Balance - July 1	<u>10,000</u>	<u>10,000</u>
Fund Balance - June 30	<u><u>\$ 10,000</u></u>	<u><u>\$ 10,000</u></u>



**Pewamo - Westphalia Community Schools**  
**Agency Fund**  
**Changes in Amounts Due to Student Groups**  
**Year Ended June 30, 2004**

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	Due to Student Groups July 1, 2003	Cash Receipts	Cash Disbursements	Due to Student Groups June 30, 2004
Activities Fund				
50/50	\$ -	\$ 4,595	\$ 4,595	\$ -
AP Calculus	261	3,901	3,829	333
Band	2,560	7,661	7,326	2,895
Band Boosters	-	62,497	28,836	33,661
Baseball	2,568	4,333	4,626	2,275
Boys Basketball	2,482	8,716	10,266	932
Cheerleaders	2,454	26,622	25,895	3,181
Class of 2002	1,307	158	605	860
Class of 2003	673	37	-	710
Class of 2004	1,952	2,158	3,588	522
Class of 2005	1,211	3,378	2,436	2,153
Class of 2006	1,376	3,600	1,600	3,376
Class of 2007	355	2,579	1,758	1,176
Class of 2008	2,040	7,598	9,042	596
Class of 2009	-	4,900	2,993	1,907
Drama	3,546	863	1,320	3,089
Football	7,734	15,407	17,686	5,455
F.F.A.	966	13,735	14,201	500
Girls Basketball	593	17,458	15,886	2,165
Golf	216	589	165	640
Jr. High Science	43	-	43	-
Jr. High Student Council	1,071	1,354	1,153	1,272
JV Baseball	-	461	-	461
	<hr/>	<hr/>	<hr/>	<hr/>
Total carried forward	\$ 33,408	\$ 192,600	\$ 157,849	\$ 68,159

**Pewamo - Westphalia Community Schools**  
**Agency Fund**  
**Changes in Amounts Due to Student Groups**  
**Year Ended June 30, 2004**

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	Due to Student Groups July 1, 2003	Cash Receipts	Cash Disbursements	Due to Student Groups June 30, 2004
Total brought forward	\$ 33,408	\$ 192,600	\$ 157,849	\$ 68,159
Kramer Scholarship	-	664	650	14
Library	713	-	292	421
National Honor Society	1,128	1,092	1,850	370
New York Trip	-	35,550	35,550	-
Office	9,436	2,897	2,550	9,783
Pirate Press	1,277	-	901	376
Psy/Soc. Child	20	310	219	111
Quiz Bowl	8	-	8	-
Renaissance	360	-	-	360
School Store	-	2,667	1,667	1,000
Senior Math	101	-	101	-
Softball	968	3,582	3,084	1,466
Student Council	2,101	3,063	3,051	2,113
Student of the Month	-	976	976	-
Track	5,484	-	5,471	13
Vocal Music	180	-	-	180
Volleyball	3,212	13,579	12,718	4,073
Weight Room	150	130	-	280
Weight Room Keys	130	-	130	-
Wood Shop	45	835	560	320
Yearbook	5,852	14,341	13,703	6,490
Elementary Fund	52,611	33,704	29,515	56,800
Total Activity Funds	<u>\$ 117,184</u>	<u>\$ 305,990</u>	<u>\$ 270,845</u>	<u>\$ 152,329</u>

**Pewamo - Westphalia Community Schools**  
**Schedule of Bonded Indebtedness**  
**June 30, 2004**

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Date of Issue: November 1, 1996

Original Amount of Issue: \$ 760,000

Purpose of Issue: To finance the cost of constructing new gable roofs to existing elementary schools and high school.

Interest Rate	Fiscal Year	Semi-annual Interest payments		Annual Maturity May 1st	Total Fiscal Year Requirements
		November 1st	May 1st		
5.00%	2005	\$ 5,500	\$ 5,500	\$ 70,000	\$ 81,000
5.00%	2006	3,750	3,750	75,000	82,500
5.00%	2007	<u>1,875</u>	<u>1,875</u>	<u>75,000</u>	<u>78,750</u>
		<u>\$ 11,125</u>	<u>\$ 11,125</u>	<u>\$ 220,000</u>	<u>\$ 242,250</u>

**Pewamo - Westphalia Community Schools**  
**Schedule of Bonded Indebtedness**  
**June 30, 2004**

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Date of Issue: August 7, 1997

Original Amount of Issue: \$ 7,135,000

Purpose of Issue: To finance the cost of construction additions to existing schools and purchasing technology improvements.

Interest Rate	Fiscal Year	Semi-annual Interest payments		Annual Maturity May 1st	Total Fiscal Year Requirements
		November 1st	May 1st		
5.00%	2005	\$ 131,588	\$ 131,588	\$ 275,000	\$ 538,176
5.00%	2006	124,712	124,712	275,000	524,424
5.00%	2007	117,838	117,838	275,000	510,676
5.00%	2008	110,962	110,962	275,000	496,924
5.00%	2009	104,088	104,088	275,000	483,176
5.00%	2010	97,212	97,212	275,000	469,424
5.00%	2011	90,338	90,338	275,000	455,676
5.00%	2012	83,462	83,462	275,000	441,924
5.00%	2013	76,588	76,588	275,000	428,176
5.00%	2014	69,712	69,712	275,000	414,424
5.00%	2015	62,838	62,838	275,000	400,676
5.00%	2016	55,962	55,962	275,000	386,924
5.10%	2017	49,088	49,088	275,000	373,176
5.10%	2018	42,075	42,075	275,000	359,150
5.10%	2019	35,062	35,062	275,000	345,124
5.10%	2020	28,050	28,050	275,000	331,100
5.10%	2021	21,038	21,038	275,000	317,076
5.10%	2022	14,025	14,025	275,000	303,050
5.10%	2023	7,012	7,012	275,000	289,024
		<u>\$ 1,321,650</u>	<u>\$ 1,321,650</u>	<u>\$ 5,225,000</u>	<u>\$ 7,868,300</u>

**Pewamo - Westphalia Community Schools**  
**Schedule of Bonded Indebtedness**  
**June 30, 2004**

Date of Issue: November 1, 2002

Original Amount of Issue: \$ 6,400,000

Purpose of Issue: To finance the cost of construction additions to existing schools.

Interest Rate	Fiscal Year	Semi-annual Interest payments		Annual Maturity May 1st	Total Fiscal Year Requirements
		November 1st	May 1st		
3.00%	2005	\$ 121,719	\$ 121,719	\$ 250,000	\$ 493,438
3.00%	2006	117,969	117,969	250,000	485,938
3.00%	2007	114,219	114,219	250,000	478,438
3.00%	2008	110,469	110,469	250,000	470,938
3.25%	2009	106,719	106,719	250,000	463,438
3.40%	2010	102,656	102,656	250,000	455,312
3.50%	2011	98,406	98,406	250,000	446,812
3.60%	2012	94,031	94,031	250,000	438,062
3.80%	2013	89,531	89,531	250,000	429,062
3.90%	2014	84,781	84,781	250,000	419,562
4.10%	2015	79,906	79,906	250,000	409,812
4.20%	2016	74,781	74,781	250,000	399,562
4.30%	2017	69,531	69,531	250,000	389,062
4.40%	2018	64,156	64,156	250,000	378,312
4.50%	2019	58,656	58,656	250,000	367,312
4.60%	2020	53,031	53,031	250,000	356,062
4.63%	2021	47,281	47,281	250,000	344,562
4.70%	2022	41,500	41,500	250,000	333,000
4.70%	2023	35,625	35,625	250,000	321,250
4.70%	2024	29,750	29,750	250,000	309,500
4.75%	2025	23,875	23,875	250,000	297,750
4.75%	2026	17,938	17,938	250,000	285,876
4.80%	2027	12,000	12,000	250,000	274,000
4.80%	2028	6,000	6,000	250,000	262,000
		<u>\$ 1,654,530</u>	<u>\$ 1,654,530</u>	<u>\$ 6,000,000</u>	<u>\$ 9,309,060</u>

**Pewamo - Westphalia Community Schools**  
**Schedule of Bonded Indebtedness**  
**June 30, 2004**

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Date of Issue: November 24, 1998

Original Amount of Issue: \$ 61,661

Purpose of Issue: School Improvement (Durant Settlement)

<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Annual Interest Payments May 15th</u>	<u>Annual Maturity May 15th</u>	<u>Total Fiscal Year Requirements</u>
4.761353%	2005	\$ -	\$ -	\$ -
4.761353%	2006	1,345	2,985	4,330
4.761353%	2007	6,172	14,261	20,433
4.761353%	2008	1,054	3,276	4,330
4.761353%	2009	898	3,432	4,330
4.761353%	2010	735	3,595	4,330
4.761353%	2011	564	3,766	4,330
4.761353%	2012	385	3,945	4,330
4.761353%	2013	197	4,133	4,330
		<u>\$ 11,350</u>	<u>\$ 39,393</u>	<u>\$ 50,743</u>

**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With  
*Government Auditing Standards***

Members of the Board of Education  
Pewamo-Westphalia Community Schools  
Pewamo, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information for Pewamo-Westphalia Community Schools as of and for the year ended June 30, 2004, which collectively comprise Pewamo-Westphalia's basic financial statements and have issued our report thereon dated July 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Pewamo-Westphalia Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pewamo-Westphalia Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the members of The Board of Education of Pewamo-Westphalia Schools in a separate letter dated July 22, 2004.

This report is intended for the information of the Board of Education, management and related regulatory agencies and is not intended for and should not be used by anyone other than those specified parties.

*Yeo & Yeo, P.C.*

Alma, Michigan  
July 22, 2004





7810 N. Alger Rd.  
Alma, MI 48801  
Phone (989) 463-6108  
Fax (989) 463-8560

July 22, 2004

To the Board of Education  
Pewamo-Westphalia Community Schools  
Pewamo, Michigan

In planning and performing our audit of the general purpose financial statements of Pewamo-Westphalia Community Schools for the year ended June 30, 2004, we considered the District's internal control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. As a result of the aforementioned study, we became aware of the following matters that are an opportunity for strengthening internal control and operating efficiency. The following summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated July 22, 2004 on the financial statements of Pewamo-Westphalia Community Schools.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### **CASH MANAGEMENT AND SEGREGATION OF DUTIES**

During the course of our audit, we noted the athletic director approves and prepares checks for the athletic fund. In order to strengthen internal controls, we recommend the checks be prepared by the business office after proper authorization of the athletic director.

We also noted payroll checks are being printed and disbursed by the same individual. We recommend having someone other than the person printing the payroll checks disburse them. This will increase internal controls by segregating duties.

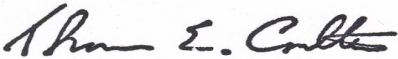
### **ATHLETIC RECEIPTS**

Upon our review of the receipts system in the area of athletics, we noted tickets were not being used at athletic events. It is our recommendation the District implements a ticket log sheet and distribute tickets at all athletic events to strengthen internal controls. The tickets should be torn in half so that they cannot be reused. We also recommend preparing a reconciliation of tickets sold to money collected for each athletic event. A ticket log sheet and reconciliation will add checks and balances to the athletic receipt system.

We will review the status of these comments during our next audit engagement. We will be happy to discuss with you, at your convenience, any accounting or reporting issues for which you would like additional information or guidance. We are grateful for the opportunity to be of service to the District and would appreciate any referrals or recommendations you might have for ways that we can improve our service to you.

Sincerely,

YEO & YEO, P.C.  
CPAs and Business Consultants



Thomas E. Cobble